

IB Economics

Exchange Rates

Chapter 23 in the Course Companion

1. Definition of exchange rate.
2. Definition of fixed exchange rate.
3. Definition of revaluation.
4. Definition of devaluation.
5. Show two ways a government can maintain a fixed exchange rate.
6. What is the third way a government can maintain a fixed exchange rate?
7. What is the current value of 1 RMB in USD?
8. What was the value of 1 RMB 5 years ago?
9. Has the RMB been revalued or devalued over the past 5 years? Explain.
10. Definition of floating exchange rate.
11. Definition of appreciation.
12. Definition of depreciation.
13. Copy Mr. Izzy's floating currency market diagram.
14. For each of the following scenarios, show and explain what will happen to the value of the USD in relation to the EURO (i.e., the market for USD). Assume that the USA is "domestic" and the EU is "foreign."
 - (A) There is an increase in foreign incomes.
 - (B) There is an increase in domestic incomes.
 - (C) There is a decrease in foreign incomes.
 - (D) There is a decrease in domestic incomes.
 - (E) Domestic inflation causes imports to be relatively cheaper.
 - (F) Foreign inflation causes locally produced goods to be cheaper.
 - (G) Domestic investment opportunities looking better than foreign investment opportunities.
 - (H) Foreign investment opportunities looking better than domestic investment opportunities.
 - (I) Domestic interest rates are higher than foreign interest rates.
 - (J) Foreign interest rates are higher than domestic interest rates.
 - (i) Sidebar: What type of policy would cause interest rates to increase?
 - (ii) Sidebar: What type of policy would cause interest rates to decrease?
 - (K) People believe the domestic currency is overvalued.
 - (L) People believe the domestic currency is undervalued.
15. Explain managed exchange rates.
16. Create a chart showing the pros/cons of a high exchange rate.
17. Create a chart showing the pros/cons of a low exchange rate.
18. How does the exchange rate reinforce the traditional trade-off between inflation and unemployment?
19. Explain the two ways governments can intervene in the foreign exchange market.
20. Create a chart showing the pros/cons of a fixed exchange rate.
21. Create a chart showing the pros/cons of a floating exchange rate.